

Macroeconomic environment

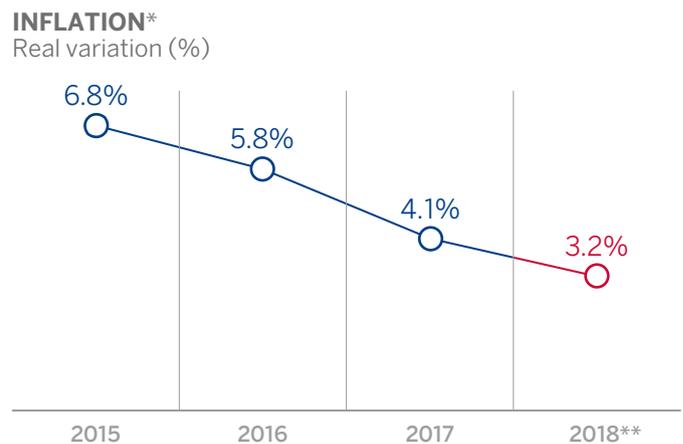
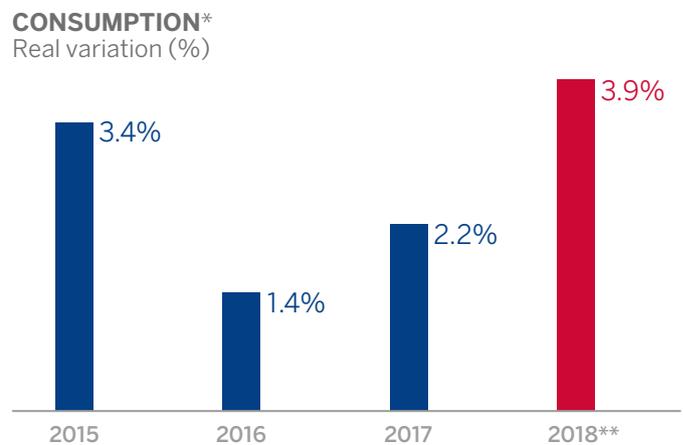
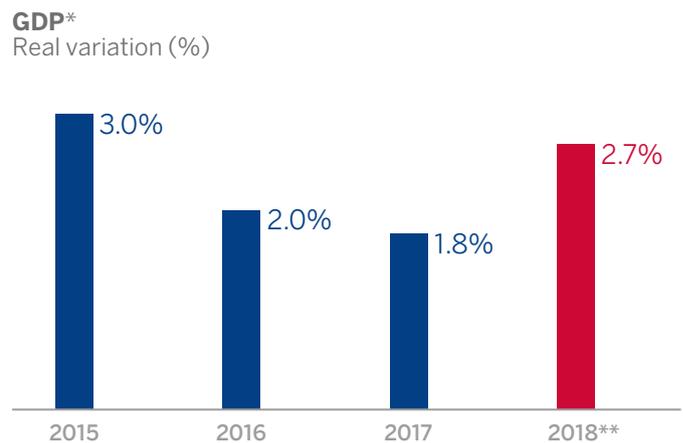
ECONOMY¹

The Colombian economy grew by 2.7% over the year, recovering after two sluggish years (with growth rates of 2% and 1.8% in 2016 and 2017 respectively). The most dynamic sectors, in line with their GDP weighting, were: trade and transport & communications, both with growth rates of 3.1%, following by electricity generation and water, at 2.7%. The public sector and defense, which includes obligatory social security affiliation programs, education, human healthcare and social services, was one of the most dynamic sectors, surging ahead by 4.1%.

The construction sector posted a strong recovery in the second half of the year after seven quarters of slower activity. The accumulated reduction in the first half was 4.7%, as a result of delays due to legal issues around major infrastructure projects and the lack of momentum in housing demand. Nevertheless, the sector grew by 5.4% in the second half, closing the year with a slight rise of 0.3%, but driving job creation in the second half of the year.

Public-sector and domestic consumption were the economic drivers, bouncing up by 3.9%. However, investment reported slower performance, up by 3.5%, most of it in the second half of the year. Exports, meanwhile, after two years of falls, recovered, expanding by 1.2%.

Inflation continued its moderate course, slipping from 4.1% in 2017, to 3.2% in 2018, converging with the long-term inflation target of 3%, and remaining within the target range set. The sectors with the most movement in terms of prices were education, health, transport and housing, which experienced hikes of over 4% and contributed 69% of the total variation in prices in 2018. Food prices helped to keep annual inflation under control, growing by only 2.2%, making up 28% of Colombian households' basket of goods and services.



¹ All data from the central bank of Colombia. Estimates to end of 2018 by BBVAMF Research.

* Central Bank, Colombia.
** BBVAMF Research estimate.

Inflation's convergence with the target range allowed the monetary authority to adopt a slightly looser stance in 2018, with two reductions in the monetary policy rate of 25 basis points each, leaving it at 4.25% from April onwards. This translated into a reduction in the interest rates and in an improvement in households' spending power.

EMPLOYMENT, POVERTY AND WELFARE²

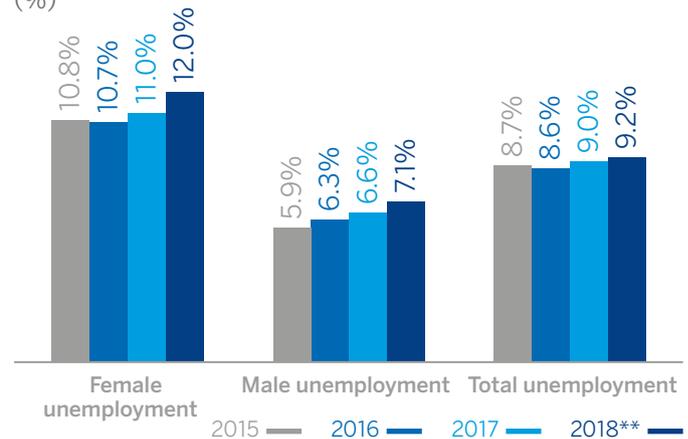
The economy's stronger performance notwithstanding, in 2018 the unemployment rate came in at 9.2% nationally, a 0.2p.p. increase. The economically active population edged down by 0.1p.p., from 64.7% to 64.6% year-on-year, while the occupancy rate slipped 0.3p.p., from 58.9% to 58.6%.

Looking at the figures by gender, there was a 163,000 increase in unemployed women, compared to an increase of only 21,000 in the case of men. Six out of every ten people who have gone into the inactive population bracket are women, most of them of working age (25–54 years old), whereas almost all the men are older than 55, with the 25–54 age-group segment of inactive men actually falling.

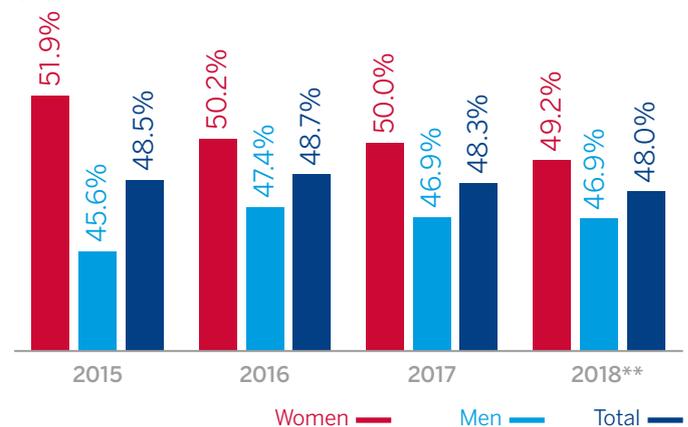
Men's unemployment rate posted at 7.1%, whereas that of women is 68% higher, at 12%, despite women's lower share of the economically active population.

The branches of economic activity with the highest rates of the occupied active population were: trade, hotels and catering, social and personal groups services, agriculture, stockbreeding, hunting, forestry and fishing. These three sectors accounted for 63.0% of the economically active population.

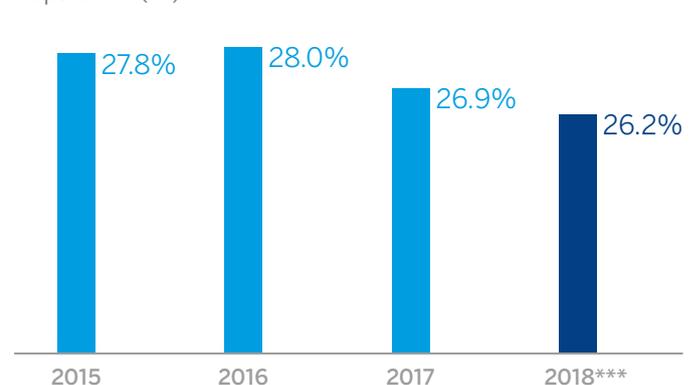
LABOR MARKET* (%)



INFORMAL SECTOR* (%)



MONETARY POVERTY* Population (%)



² DANE data available as of October 2018. BBVAMF Research estimates.

* Central bank, Colombia.
** Moving third quarter average.
*** BBVAMF Research estimate.

Macroeconomic environment

Unemployment rose in 17 of the country's 23 largest cities in 2018. The city with the highest unemployment rate was Quibdó (17.9%), followed by Cúcuta MA (metropolitan area), at 15.9%, Ibagué with 15% and Riohacha with 14.6%. Unemployment in Bogotá DC posted at 9.6%, a rise of 0.3p.p. in the last year. The city with the lowest unemployment was Pasto, at 8.1%, followed by Bucaramanga MA with 8.3%, Pereira MA with 8.6% and Barranquilla MA with 8.8%.

Objective under-employment covers those workers who have made an effort to bring their aspirations to fruition and are prepared to make a change to increase their incomes, the number of hours they work, or to do a job that better matches their personal abilities. The national rate of objective under-employment came in at 10.3%. The cities with the highest rate of under-employment were: Riohacha (17.4%), Barranquilla MA (14.1%) and Cali MA (13.1%).

Meanwhile, the rate of subjective under-employment –which looks only at the desire to improve one's current working situation, as is the case with the previous category– stood at 23.2%. The cities with the highest rate of subjective under-employment were: Cali MA (30.7%), Pasto (30.5%) and Barranquilla MA (28.4%).

48% of people worked in the informal economy, broken down into 46.9% for men, and 49.2% for women.

In 2018 monetary poverty was 0.7p.p. lower than in 2017, at 26.2% of the population. Extreme poverty also fell by 0.5%, posting at 6.9% at the end of 2018. Over the same year, the poverty rate in municipal capital cities was 23.7%, whereas in populated and remote rural areas it was 34.8%.

In 2018 the national Gini ratio was 0.503, an improvement over 2017, when it posted at 0.508, so a modest reduction in household income inequality, but the country remains one of the most unequal in the region.

FINANCIAL INCLUSION

According to World Bank³ figures, in Colombia only 44.9% of adults are banked and have their own account in a financial institution. There is a wide gender gap in financial inclusion: the ratio for men is 7p.p. higher than that for women, whose participation is 41.4%. That is, nearly 6 of every 10 adult women are excluded from the financial system.

The gap is even wider when we measure by income level. Of the poorest 40% of adults, 33.7% are financially included, whereas for the 60% with the highest incomes, 52.3% are banked. This gap resulting from income differences, at 18.7 percentage points, is one of the highest in the region.

Of the main determinants for being unbanked, 67.2% of adults claimed that the main reason was insufficient funds. 20.5% of adults gave their reason as the distance from financial institutions, while 59% said that financial services were "very expensive".

39% of adults saved some money in the previous year, but only 9% did so in a financial institution. 27% of the lowest-income adults managed to save in the previous twelvemonth.

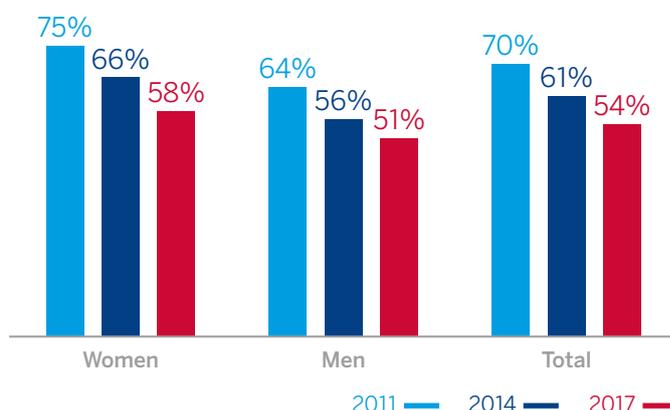
41%, meanwhile, have taken out a loan, but only 14% have obtained it from a financial institution, whereas 20% were lent money by family members or friends. For lower-income adults, although 30% received some kind of loan, only 9% of this segment obtained it from financial institutions, whereas 17% obtained it from family members or friends.

³ Global Findex 2017, World Bank.

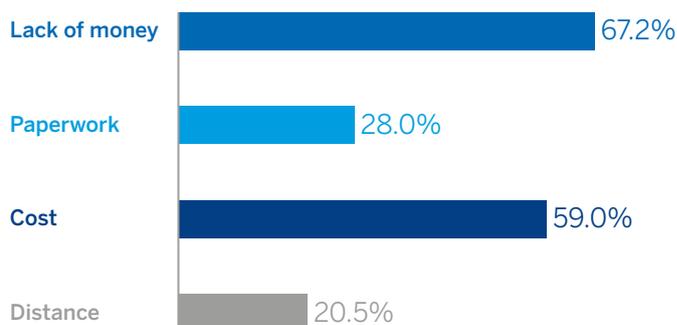
According to local sources⁴, financial institutions had a physical presence in 833 (74.2%) of the country's 1,122 municipalities. However, these sources report that since 2015, all 1,122 municipalities have had at least one access point. In total, financial institutions have 532,138 access points, which are distributed as follows: 403,512 dataphones (75.8%), 105,104 banking agents (19.8%), 15,709 automatic teller machines (ATMs), (3.0%) and 7,813 branch offices (1.4%).

According to these sources, the country's financial inclusion penetration rose from 73.9% in 2014 to 80.1% in 2017. 75.6% of adults had at least one deposit product, while 44% had at least one credit product. As the location becomes more rural, financial inclusion falls; the gap between cities and remote rural municipalities is 32.5p.p. in financial inclusion terms. As to the gender composition of adults with some kind of financial product, the figures show that 50.7% are women and 49.1% are men, so there are no significant gender differences in terms of access to financial products.

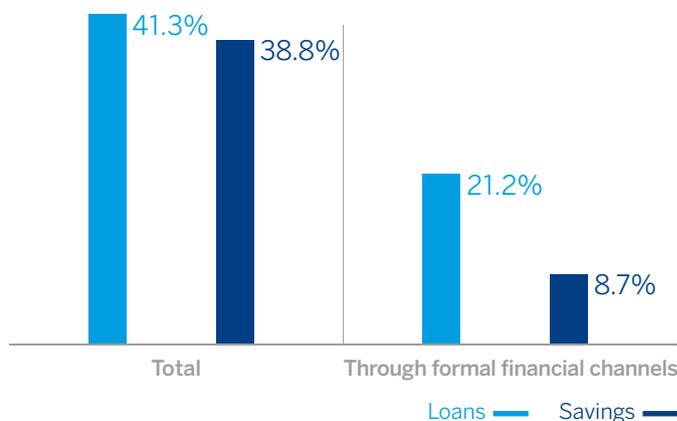
UNBANKED ADULTS*
Total over 15 years old (%)



EXCLUSION FACTORS*
Excluded adults (%)



PRODUCTS IN DEMAND
Adults (%)



⁴Banca de las Oportunidades, Financial Authority and central bank, Colombia.

* Global Findex, World Bank.